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Canadian Tricentrol Oils Ltd.

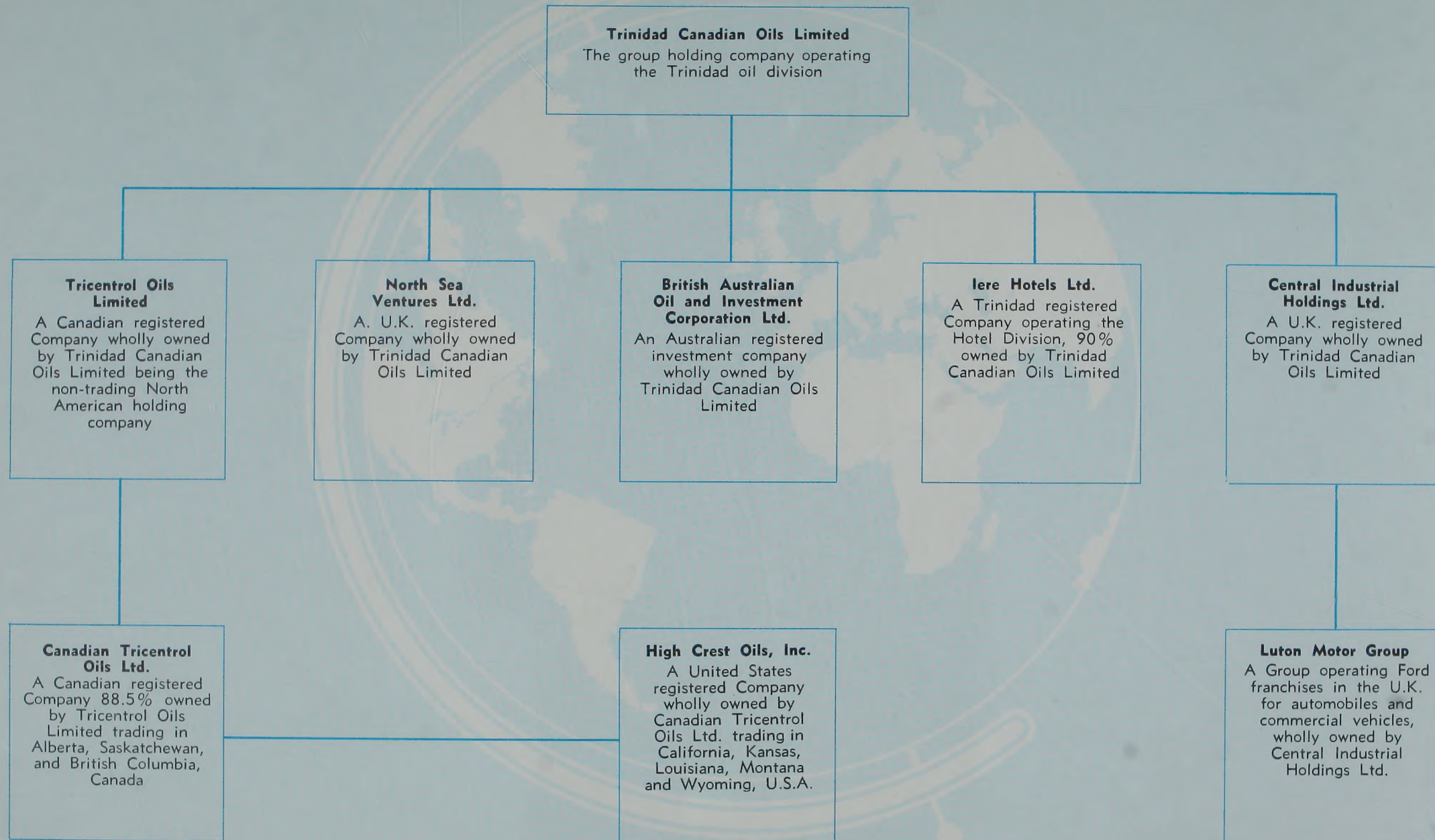
ANNUAL REPORT



AR09

for year ending December 31, **1968**

THE PARENT GROUP



Canadian Tricentrol Oils Ltd.

(Incorporated under the Laws of Alberta)

| | | |
|----------|--|---------------------|
| Officers | R. S. LONGCROFT, F.C.A. | President |
| | J. G. S. LONGCROFT | Vice-President |
| | A. P. HAINES, A.C.W.A., F.C.I.S. | Secretary-Treasurer |
| | K. H. SANDS, R.I.A. | Assistant Treasurer |

| | | |
|-----------|-------------------------------|---|
| Directors | R. S. LONGCROFT | London, England and Calgary, Alberta |
| | J. G. S. LONGCROFT | London, England |
| | R. P. ALGER | Calgary, Alberta |
| | J. M. ROBERTSON, Q.C. | Calgary, Alberta |
| | R. D. BELL | Calgary, Alberta |

| | | |
|--------------------|---|------------------|
| Technical managers | STERLING OIL PROPERTIES MANAGEMENT LTD. | Calgary, Alberta |
|--------------------|---|------------------|

| | | |
|-----------------|--|---|
| Transfer agents | CANADA PERMANENT TRUST COMPANY | Calgary, Alberta Toronto, Ontario Vancouver, B.C. |
| | CANADIAN BANK OF COMMERCE TRUST COMPANY | New York, N.Y., U.S.A. |

| | | |
|----------|---|------------------|
| Auditors | DELOITTE, PLENDER, HASKINS & SELLS CHARTERED ACCOUNTANTS | Calgary, Alberta |
|----------|---|------------------|

| | | |
|---------|---|-------------------------------|
| Bankers | THE ROYAL BANK OF CANADA | Main Branch, Calgary, Alberta |
| | FIRST CITY NATIONAL BANK OF HOUSTON | Houston, Texas, U.S.A. |

| | | |
|-------------------------|--|--|
| Stock exchange listings | TORONTO, CALGARY AND VANCOUVER STOCK EXCHANGES | |
|-------------------------|--|--|

| | | |
|-------------------|-------------------------------|------------------|
| Registered office | 1500 GUINNESS HOUSE | Calgary, Alberta |
|-------------------|-------------------------------|------------------|

| | | |
|-------------------|------------------------------|------------------|
| Operations office | 1730 ELVEDEN HOUSE | Calgary, Alberta |
|-------------------|------------------------------|------------------|

Report of the Directors

TO THE SHAREHOLDERS:

During 1968 the Company had of financial necessity to slow down the pace of exploration while maintaining its position in the Bearpaw Area of North-Central Montana. However we participated in the drilling of 51 wells which resulted in 22 oilwells and 1 gas well being completed in Canada, and 1 oilwell and 6 gas wells in the United States.

Company policy and management effort continue to be dominated by our investments in Montana and the need to secure a realistic market for our present and future gas reserves in the area.

In 1967 we intervened before the U.S. Federal Power Commission in the matter of Montana Power Company's application to import additional natural gas from Canada, believing that there were adequate reserves in that State to meet Montana Power Company supply demands. This case was concluded on March 27th, 1969 with the Federal Power Commission permitting Montana Power to import a further 20,000 m.c.f. per day from Canada. During this case we had our gas on offer to the Montana Power Company, which effectively precluded the commitment of our gas reserves elsewhere.

In recent months considerable interest has been shown by a number of possible purchasers, and it is hoped that during 1969 a gas sales contract will be signed. A drilling program for the further development of the Bearpaw area is now under way.

Arrangements have now been finalized for the sale of oil from the recent discovery in California, where we have a 12½% interest in some 2,200 acres. The second test well is being spudded at date of this report, which will help give us an indication as to the extent and importance of this discovery.

Capital expenditures on acquisition, exploration and development of properties in Canada and the United States totalled \$957,645, of which approximately 56% was incurred in the U.S. The aggregate of these expenditures for the previous year was \$1,596,049. Net footage drilled in 1968 was 49,295 feet, compared to 64,858 feet in year 1967. Consolidated crude oil sales increased from 679,717 barrels (1,862 b.p.d.) in 1967 to 696,914 barrels (1,904 b.p.d.) for the year 1968. Consolidated gross revenue from the sale of crude oil and natural gas was \$1,853,457, an increase of approximately 3% over the previous year's total of \$1,800,907.

After providing for depletion and depreciation, consolidated net income for year 1968 was \$401,970, compared with 1967 net income of \$414,043.

Your Directors again wish to express their appreciation of the continued support and encouraging contributions of members of our management companies, and also wish to acknowledge the co-operation extended by joint operators.

Shareholders may have received from time to time certain circulars or letters commenting on the Company's activities, and we would caution shareholders that to base financial decisions on any circular or letter not officially attributed to the Company may be unwise. The Company is subject to Ruling No. 49 of the Toronto Stock Exchange which provides for immediate notification to the Exchange and Press of any material alteration in the position of the Company. Your management as in the past will continue to abide by this ruling.

On Behalf of the Board of Directors

R. S. LONGCROFT
President.

April 2, 1969.

GENERAL REVIEW OF YEAR 1968

WESTERN CANADA

Alberta

The Company has participated in further development drilling of joint interest holdings in the Keystone-Pembina area of Alberta, resulting in 2 wells being completed as Belly River oil producers, the remaining 3 wells being plugged and abandoned as dry holes. Further unitization of the Pembina area resulted in the formation of Pembina Belly River "C" Unit, Pembina Belly River "B" North Unit and Pembina Belly River "L" Unit, to which the Company contributed its working interests in 17, 15 and 11 producing oilwells in exchange for unit participating interests of 15.3%, 14.9% and 13.4% respectively.

In the North Buffalo area of Southern Alberta, the Company participated with a 48 $\frac{1}{8}$ % working interest in the successful drilling of a Viking Sand gas well. A participating interest was also held in 3 exploratory wells drilled on farm-in acreage at Chip Lake, Villeneuve and Lake Newell areas, none of which encountered production. The taking of production from Leduc Woodbend D-2B Pool Unit has ceased to be economical, and unit operation was terminated in October 1968. The Company held a 4.4% working interest in the unit.

Acquisition of Crown Sale lands in the Bigoray and Chip Lake areas during the

year aggregated 8,000 gross acres, of which the Company's share amounted to 965 net acres.

Arctic Islands

Canadian Tricentrol has a 25% working interest in 401,500 permit acres in the Canadian Arctic Islands, which interest has been farmed out to Panarctic Oils Ltd., under an agreement whereby that company can earn up to 85% by fulfilling certain commitments. The Panarctic program involves exploration of 50,000,000 acres in this region, where seismic and geological studies were conducted in 1968.

British Columbia

In the Inga area of Northeast British Columbia, the Company participated with varying interests in the drilling of 3 additional oilwells. The Inga Unit No. 1 was formed during 1968, to which the Company contributed its interest in 13 wells in exchange for a unit participating equity approximating 5%. Water injection operations are expected to commence during the first half of 1969, at which time the unit will be allowed to produce its approved waterflood maximum permissive rate.

Saskatchewan

During the year, the Company participated in overall drilling of 22 wells in the

Province of Saskatchewan, resulting in 17 completed oilwells and 5 dry holes.

Further exploratory drilling in the general Illerbrun area led to a new oil discovery located approximately ten miles west of the original Illerbrun field, and follow-up drilling has resulted in 11 oilwells and 3 dry hole abandonments. The Company holds interests varying from 8.9% to 12.2% in these wells, and plans further drilling for the area during 1969. Following these drilling successes, the Company joined with partners in acquiring an additional 4,480 acres of Crown Leases at Illerbrun in which the Company net share amounts to 546 net acres.

Canadian Tricentrol joined in further development drilling in the Cantuar field, where 4 oil wells were drilled in which the Company participated with a 25% working interest. Company participation in drilling on farmed-in acreage in the Oungre area resulted in a successful oil well; the Company holds a 48 $\frac{1}{8}$ % working interest in this well and 1,280 adjourning lease acres. Participation in drilling of 2 wells on other farmed-in acreage at Browning and Clarilaw areas of Southeast Saskatchewan was unsuccessful, both wells being subsequently abandoned as dry holes.

Following a consolidation of its working interest in 19,504 lease acres in the East Hatton area with other parties holding 23,595 gross acres in the same area, the Company farmed out its equity, reserving a sliding scale royalty. During the year the

farmee drilled and completed 20 gas wells on the consolidated acreage at no cost to the Company, and constructed gas gathering and compression facilities, the first deliveries of gas commencing in November 1968.

Having originally obtained a 25% participating interest in 799,934 gross acres of mining permits and claim blocks in the Cypress Hills uranium prospect area of Southwest Saskatchewan, the Company has concluded a pooling arrangement with other holders of mineral acreage in the area on terms that will allow the Company to retain a 12½% working interest in 1,650,000 gross acres. The pooled mining permits and claim blocks have subsequently been farmed out under an agreement which provides for farmee to return bond deposits and rentals previously paid by the Company, and to expend \$300,000 on an exploratory program prior to November 1, 1969, whereupon farmee will earn a working interest and the Company's working interest will accordingly be reduced to 10%.

UNITED STATES

Montana

Exploratory and development drilling by High Crest Oils, Inc., (the wholly owned U.S. subsidiary of Canadian Tricentrol)

continued during the early part of the year on the extensive acreage spread in Tiger Ridge and Bullhook areas, and of a total of 8 wells drilled to test the Eagle Sand formation, 6 were completed as gas wells, the remaining 2 wells being plugged and abandoned. Further drilling of Eagle Sand tests was curtailed in the latter half of 1968 pending the outcome of negotiations for a gas sales contract. The Company and its partners have pursued an active policy of seeking a realistic contract for the sale of the substantial gas reserves proved up in the Tiger Ridge/Bullhook areas, and the Company is hopeful that the negotiations will be successfully concluded in 1969. In May of 1968, the Company drilled a deep test well on Tiger Ridge lands to the Mississippian limestone (4,000 feet) and discovered oil in the Upper Shaunavon horizon. The Company acquired additional Montana State oil and gas leases comprising 3,400 acres in close proximity to the Tiger Ridge oil discovery, but a second well drilled to offset the discovery well encountered no porosity and was plugged and abandoned. A third deep test located approximately 7 miles south of the discovery well was also abandoned as a dry hole after being drilled to a total depth of 5,897 feet.

High Crest also participated in drilling 5 more exploratory wells in the Rocky Boy region southwest of Tiger Ridge/Bullhook areas, which yielded valuable geological data. The Rocky Boy leases were augmented by acquisition of a further 12,695 acres of Indian Lands, while 6,251 acres of un-

developed oil and gas leases in this area were considered lacking in oil or gas potential and surrendered.

While no further drilling was carried out in 1968 on the 110,000 net acres leased by the Company in the Sherard area located 18 miles due south of Tiger Ridge field, an exploratory drilling program is contemplated for this acreage block in 1969.

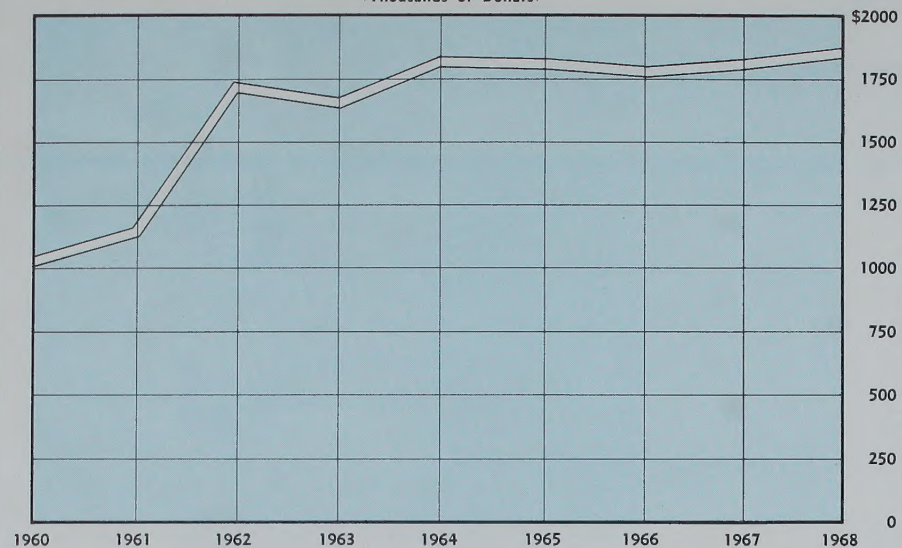
Wyoming

The Company participated with a 48¾% working interest in the drilling of an exploratory well in the Thompson Creek area of Crook County in the spring of 1968, which was abandoned as dry. The Company's interest in some 2,165 acres at Thompson Creek was subsequently surrendered.

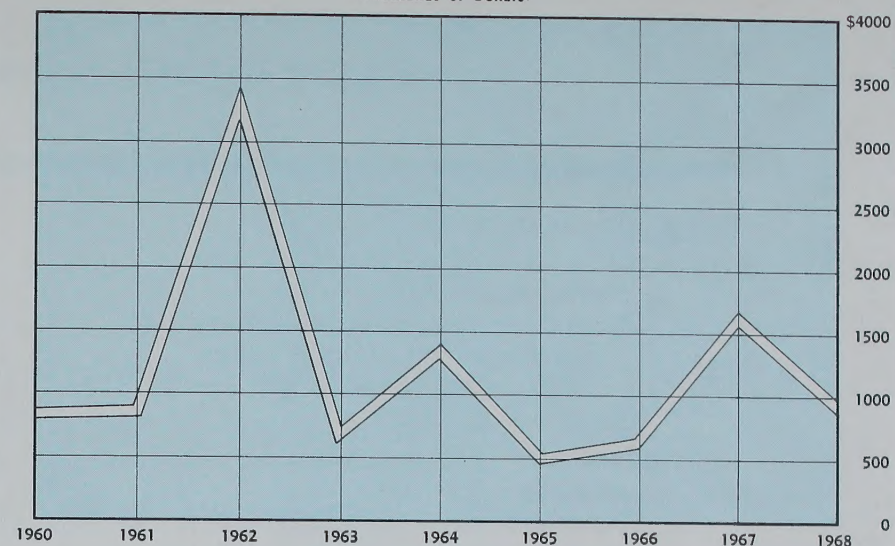
Louisiana

A test well was drilled at no cost to the Company on acreage farmed out from its University Field holdings in an attempt to evaluate the deep rights. Although total depth of the test was envisaged as 17,000 feet, the well was plugged and abandoned at 13,522 feet after having penetrated a major fault cutting out the Wilcox Sand section, the main test objective.

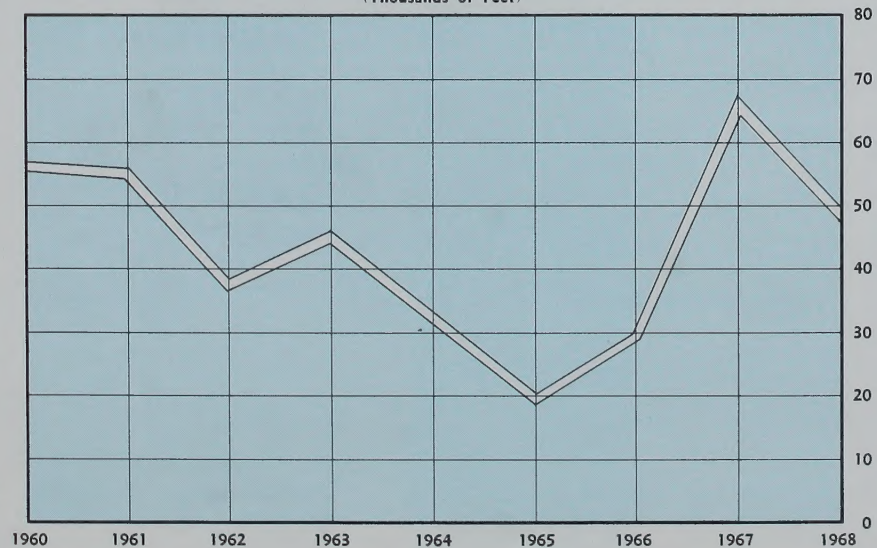
CONSOLIDATED GROSS OIL AND GAS SALES
(Thousands of Dollars)



CONSOLIDATED NET ACQUISITION AND DEVELOPMENT EXPENDITURES
(Thousands of Dollars)



CONSOLIDATED NET FOOTAGE DRILLED
(Thousands of Feet)



CRUDE OIL SALES

| | 1968 | | 1967 | |
|--------|---------|-------|---------|-------|
| | BBLs. | B/D | BBLs. | B/D |
| CANADA | 543,281 | 1,484 | 530,799 | 1,454 |
| U.S.A. | 153,633 | 420 | 148,918 | 408 |
| | 696,914 | 1,904 | 679,717 | 1,862 |

NATURAL GAS SALES (in thousands of cubic feet per day)

| Average for the Year | 1968 | 1967 |
|----------------------|-------|-------|
| CANADA | 2,760 | 2,309 |
| U.S.A. | 228 | 239 |

EXPLORATORY AND DEVELOPMENT WELLS DRILLED

| | Gross | Net | Gross | Net |
|--------------|-------|-------|-------|-------|
| CANADA — Oil | 22 | 3.71 | 22 | 3.04 |
| — Gas | 1 | .48 | 2 | .49 |
| — Dry | 11 | 2.18 | 4 | .71 |
| U.S.A. — Oil | 1 | .58 | 1 | .49 |
| — Gas | 6 | 3.51 | 20 | 11.70 |
| — Dry | 10 | 4.73 | 22 | 13.21 |
| | 51 | 15.19 | 71 | 29.64 |

ACREAGE

| Oil and Gas Holdings | Gross Acres | Net Acres | Gross Acres | Net Acres |
|----------------------------|-------------|-----------|-------------|-----------|
| CANADA | 1,439,546 | 161,150 | 1,278,676 | 157,947 |
| U.S.A. | 439,845 | 269,345 | 414,716 | 261,662 |
| | 1,879,391 | 430,495 | 1,693,392 | 419,609 |
| Uranium Permits and Claims | | | | |
| CANADA | 1,650,000 | 201,094 | 799,934 | 194,984 |

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

ASSETS

| | 1968 | 1967 |
|---|---------------------------|---------------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 76,497 | \$ 69,054 |
| Accounts receivable: | | |
| Production and joint operations, less allowance for possible losses 1968 — \$11,044; 1967 — \$5,935 | 228,408 | 264,618 |
| Other | 25,370 | 21,583 |
| Refundable deposits | 37,495 | — |
| Inventories: | | |
| Materials and well equipment — at cost | 1,986 | 1,986 |
| Crude oil — at posted field price | 53,442 | 57,567 |
| Prepaid expenses | 60,028 | 43,835 |
| Total current assets | <u>483,226</u> | <u>458,643</u> |
| DEPOSITS AND NOTE RECEIVABLE — at cost (market value 1968 — \$192,333; 1967 — \$137,382) | <u>194,182</u> | <u>140,995</u> |
| PROPERTIES AND EQUIPMENT — at cost (Note 2): | | |
| Developed lease and royalty interests | 5,973,764 | 5,935,174 |
| Production and lease equipment | 2,297,243 | 2,317,867 |
| Undeveloped and non-producing properties | 3,142,407 | 3,076,612 |
| | <u>11,413,414</u> | <u>11,329,653</u> |
| Less accumulated depletion and depreciation | 3,175,743 | 3,859,605 |
| Net properties and equipment | <u>8,237,671</u> | <u>7,470,048</u> |
| INCORPORATION EXPENSE — at cost | <u>606</u> | <u>—</u> |
| Approved by the Board: J. G. S. LONGCROFT, Director R. P. ALGER, Director | | |
| TOTAL | <u><u>\$8,915,685</u></u> | <u><u>\$8,069,686</u></u> |

CONSOLIDATED BALANCE SHEET as at December 31, 1968

(with 1967 figures for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1968 | 1967 |
|--|---------------------------|---------------------------|
| CURRENT LIABILITIES: | | |
| Bank loan payments due within one year | \$1,290,297 | \$ 794,446 |
| Accounts payable: | | |
| Trade and joint operations | 333,664 | 273,636 |
| Parent company | — | 15,449 |
| Accrued liabilities | 33,713 | 50,724 |
| Total current liabilities | <u>1,657,674</u> | <u>1,134,255</u> |
| LONG-TERM DEBT: | | |
| Bank loans secured by the hypothecation of certain producing properties and/or the proceeds therefrom — less included in current liabilities | 1,477,146 | 1,665,287 |
| 4% note payable to parent company, due January 1, 1972 | — | 756,757 |
| Non-interest bearing advances from parent company, no fixed terms of repayment | 1,498,483 | 641,375 |
| Total long-term debt | <u>2,975,629</u> | <u>3,063,419</u> |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock (Notes 3 and 4): | | |
| Authorized — 1,250,000 common shares of a par value of \$2 each | | |
| Issued and fully paid — 1968 — 1,051,155 shares | 2,102,310 | 2,096,710 |
| 1967 — 1,048,355 shares | 498,430 | 495,630 |
| Contributed surplus (Note 4) | 1,681,642 | 1,279,672 |
| Retained earnings | <u>4,282,382</u> | <u>3,872,012</u> |
| Total shareholders' equity | | |
| TOTAL | <u><u>\$8,915,685</u></u> | <u><u>\$8,069,686</u></u> |

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1968

(with 1967 figures for comparison)

| | 1968 | 1967 |
|---|-------------|-------------|
| INCOME: | | |
| Sale of crude oil and natural gas | \$1,842,362 | \$1,789,348 |
| Royalty income | 11,095 | 11,559 |
| Total income | 1,853,457 | 1,800,907 |
| OPERATING EXPENSE: | | |
| Royalties and production expense | 761,676 | 739,654 |
| INCOME FROM PRODUCTION | 1,091,781 | 1,061,253 |
| EXPENSES: | | |
| General and administrative | 177,365 | 137,502 |
| Interest | 152,188 | 159,694 |
| Total expenses | 329,553 | 297,196 |
| INCOME BEFORE OTHER INCOME | 762,228 | 764,057 |
| OTHER INCOME: | | |
| Administration charges | — | 28,745 |
| Miscellaneous | 17,660 | 39,450 |
| Total other income | 17,660 | 68,195 |
| INCOME BEFORE DEPLETION AND DEPRECIATION | 779,888 | 832,252 |
| PROVISION FOR DEPLETION AND DEPRECIATION | 377,918 | 439,775 |
| INCOME BEFORE NON-RECURRING INCOME | 401,970 | 392,477 |
| NON-RECURRING INCOME: | | |
| Net adjustment of prior years gas sales price | — | 21,566 |
| NET INCOME FOR THE YEAR (Note 5) | 401,970 | 414,043 |
| RETAINED EARNINGS AT BEGINNING OF THE YEAR | 1,279,672 | 865,629 |
| RETAINED EARNINGS AT END OF THE YEAR | \$1,681,642 | \$1,279,672 |

The accompanying notes are an integral part of the financial statements.

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1968

(with 1967 figures for comparison)

| | 1968 | 1967 |
|---|-------------|------------|
| FUNDS PROVIDED: | | |
| Net income for the year | \$ 401,970 | \$ 414,043 |
| Depletion and depreciation | 377,918 | 439,775 |
| Total funds provided from operations | 779,888 | 853,818 |
| Bank loans | 737,022 | 1,481,999 |
| Advances from parent company | 100,351 | 40,000 |
| Proceeds from sale of property and equipment | 49,864 | 24,310 |
| Collection of advances and deposits | 29,753 | 11,549 |
| Sales of capital stock | 8,400 | — |
| Total funds provided | 1,705,278 | 2,411,676 |
| FUNDS APPLIED: | | |
| Additions to property and equipment: | | |
| Acquisition of properties | 122,766 | 495,915 |
| Exploration and development | 736,320 | 850,619 |
| Production and lease equipment | 98,559 | 250,645 |
| Undeveloped lease rental expense | 235,451 | 35,105 |
| Total additions to property and equipment | 1,193,096 | 1,632,284 |
| Repayment of bank loans | 925,163 | 821,232 |
| Increase in deposits and note receivable | 85,249 | 63,066 |
| Miscellaneous | 606 | 87 |
| Total funds applied | 2,204,114 | 2,516,669 |
| DECREASE IN WORKING CAPITAL FOR THE YEAR | 498,836 | 104,993 |
| DEFICIENCY IN WORKING CAPITAL AT BEGINNING OF THE YEAR .. | 675,612 | 570,619 |
| DEFICIENCY IN WORKING CAPITAL AT END OF THE YEAR | \$1,174,448 | \$ 675,612 |

The accompanying notes are an integral part of the financial statements.

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

1. PRINCIPLES OF CONSOLIDATION:

The accounts of High Crest Oils, Inc., and Montana Natural Gas Company, wholly-owned United States subsidiary companies and Gerla Petroleums Limited are included in the consolidated financial statements. The accounts of the United States subsidiaries were converted; (a) as to current assets and current liabilities at the rate of exchange prevailing at December 31, 1968 and (b) as to properties and equipment, long-term debt and capital stock at historical rates and (c) as to income and expenses (except depletion and depreciation) at the approximate monthly average rate in which the transactions occurred, and as to depletion and depreciation at the exchange rates applicable to the related properties and equipment.

2. ACCOUNTING PRACTICES:

The companies use the full cost method of accounting whereby all costs relating to the exploration for and development of oil and gas reserves, including exploration overhead and management fees where appropriate, are capitalized whether the related property is producing or non-producing. Proceeds from the disposal of properties are deducted from net asset costs without recognition of profit or loss. Depletion of oil and gas properties is computed on the total of all such costs by the unit of production method based upon the total estimated recoverable reserves. Depreciation of production equipment is computed in a similar manner.

3. CAPITAL STOCK:

A management company has been granted an option to purchase 100,000

shares of the company at \$3 per share which may be exercised at any time up to December 4, 1969. During the year the parent company bought the rights to this option. In 1968 2,800 shares were exercised under the option (none in 1967) for the benefit of the parent company for a cash consideration of \$8,400.

4. CONTRIBUTED SURPLUS:

Amounts received by the company in excess of the par value of issued capital stock have been credited to contributed surplus. The account has been reduced in prior years by deficits written-off in the course of company reorganization, and an appropriation to recognize non-recoverable costs of developed properties and surrender or disposal of undeveloped properties. During 1968, contributed surplus was increased by \$2,800 which represented the excess consideration of shares issued for cash over par value.

5. INCOME TAXES:

No income taxes are payable by the company or its Canadian and United States subsidiaries for 1968 since development expenditure and depletion allowances which may be claimed under the respective Income Tax Acts are in excess of those shown in the accounts of the companies. Subject to any changes which may arise upon assessment of the companies tax returns, approximately \$2,400,000 of unclaimed expenditures or loss carry forward remained at December 31, 1968.

The company does not consider it appropriate to provide for income taxes deferred as a result of claiming for income tax

purposes drilling, exploration and lease acquisition costs, in excess of the related charges to earnings and this view conforms with general practice in the oil and gas industry. This practice differs from the tax allocation recommendation of the Canadian Institute of Chartered Accountants that income tax be provided for on the basis of income reported in the accounts. For 1968 capital cost allowances claimed are not significantly different from depreciation recorded in the accounts. If the tax allocation basis has been followed for all timing differences between taxable income and reported income, deferred income taxes of \$127,600 (\$134,000 — 1967) would have been provided and net earnings for the year would have been reduced accordingly. The accumulated deferred income tax provisions covering the current and prior years would have amounted to \$701,600 at December 31, 1968.

6. REMUNERATION OF MANAGEMENT AND OTHERS:

No direct remuneration was paid during the year to the directors or senior officials of the company, nor does the company or its subsidiaries have any employees. Instead, \$155,191 was paid to various management companies for administration, technical services and normal overhead charges. Included in this amount is \$62,695 paid to the company's technical managers, Sterling Oil Properties Management Ltd., for services in connection with property acquisition, exploration and development which has been capitalized in accordance with the company's adopted accounting practice. The balance of \$92,496 is included in general and administration expenses.

AUDITORS' REPORT

To the Shareholders of
CANADIAN TRICENTROL OILS LTD.

We have examined the consolidated balance sheet of Canadian Tricentrol Oils Ltd. and its wholly-owned subsidiaries as at December 31, 1968 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its wholly-owned subsidiaries at December 31, 1968 and the results of their operations and the sources and applications of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

Calgary, Alberta.
April 3, 1969.

CANADIAN TRICENTROL OILS LTD.

Summary of Oil and Gas Property Interests as at December 31, 1968

| AREA | GROSS ACRES | NET ACRES | WELLS CAPABLE OF PRODUCTION | |
|------------------------|----------------|--------------|-----------------------------------|-----|
| | | | Oil | Gas |
| CANADA | | | | |
| ALBERTA | | | | |
| Acheson | 160 | 18 | 1 | |
| Atlee | 51,962 | 5,377 | | 12 |
| Bigoray | 1,280 | 156 | | |
| Braeburn-Saddle Hills | 13,440 | 1,344 | | 2 |
| Chigwell | 160 | 43 | 1 | |
| Chip Lake | 8,000 | 1,039 | | |
| Clive | 1,920 | 960 | | |
| Crossfield | 14,215 | 1,323 | 76 | |
| Etzikom | 3,832 | 3,640 | | 1 |
| Fenn Big Valley | 1,760 | 1,716 | | |
| Ghost Pine | 144,160 | 314 | | 37 |
| Halkirk | 1,280 | 427 | | 1 |
| Hussar | 8,120 | 289 | 37 | 7 |
| Joarcam | 4,280 | 8 | 103 | |
| Judy Creek | 960 | 224 | | |
| Leduc | 160 | 80 | | |
| Malmo | 320 | 40 | 1 | |
| Medicine River | 3,760 | 38 | 31 | |
| North Buffalo | 1,280 | 616 | | 1 |
| North Pigeon Lake | 1,280 | 228 | 3 | |
| North Sedalia | 3,840 | 1,216 | | 1 |
| Oyen | 1,280 | 320 | | 1 |
| Pakowki Lake | 31,348 | 4,707 | | 10 |
| Pembina | 146,945 | 6,401 | 1,243 | 1 |
| Pembina River | 3,360 | 840 | | |
| Red Earth | 160 | 27 | | |
| Sedalia | 6,880 | 1,677 | | 1 |
| Tilley | 4,960 | 597 | | |
| Villeneuve | 964 | 348 | | |
| Wainwright | 1,940 | 281 | 59 | 1 |
| Willesden Green | 8,960 | 153 | 58 | |
| Wimborne | 27,300 | 15 | | 24 |
| TOTAL ALBERTA | 500,266 | 34,462 | 1,613 | 100 |
| ARCTIC | | | | |
| Banks Island | 401,504 | 100,375 | | |
| BRITISH COLUMBIA | | | | |
| Beatton River | 346 | 116 | | |
| Blueberry | 3,474 | 211 | | |
| Buick Creek/Inga | 20,758 | 2,046 | 34 | 1 |
| Cameron River | 26,735 | 4,410 | | |
| Laprise Creek | 690 | 673 | | |
| Milligan Creek | 520 | 93 | | 1 |
| TOTAL BRITISH COLUMBIA | 52,523 | 7,549 | 34 | 2 |
| SASKATCHEWAN | | | | |
| Alameda | 7,920 | 805 | 93 | |
| Browning | 800 | 195 | | |

| AREA | GROSS ACRES | NET ACRES | WELLS CAPABLE OF PRODUCTION | |
|----------------------------|------------------|----------------|-----------------------------------|------------|
| | | | Oil | Gas |
| Cantuar | 11,200 | 791 | 157 | 3 |
| Carnduff | 3,870 | 196 | 62 | |
| Cactus Lake | 2,560 | 576 | | |
| Coleville | 49,461 | 73 | | 37 |
| Glen Ewen | 8,960 | 417 | 57 | |
| Hatton | 24,783 | 6,196 | | 4 |
| Hoosier | 31,639 | 147 | | 16 |
| Illerbrun | 49,964 | 6,021 | 19 | |
| Lampman | 1,000 | 25 | 13 | |
| Lloydminster | 70 | 63 | 2 | |
| Milton | 3,836 | 932 | | 6 |
| Oungre | 1,280 | 616 | 1 | |
| Parkman | 230 | 57 | | |
| Queensdale | 80 | 20 | 1 | |
| Steelman | 62,356 | 1,602 | 669 | |
| Weyburn | 52,720 | 32 | 667 | |
| TOTAL SASKATCHEWAN | 312,729 | 18,764 | 1,741 | 66 |
| ROYALTY INTERESTS | | | | |
| ALBERTA | | | | |
| Campbell | 120 | | 1 | |
| Halkirk | 4,478 | | | 1 |
| Leduc | 160 | | | |
| Northern Alberta | 155,200 | | 3 | |
| Pembina | 471 | | 1 | |
| Willesden Green | 159 | | 5 | 1 |
| TOTAL ALBERTA | 160,588 | | | |
| SASKATCHEWAN | | | | |
| Alameda | 480 | | 5 | |
| Cactus Lake | 3,210 | | | |
| Carnduff | 720 | | 9 | |
| Hastings | 640 | | 3 | |
| Hoosier | 1,918 | | | 3 |
| Illerbrun | 2,008 | | | |
| Northgate | 1,600 | | 10 | |
| Queensdale | 400 | | 1 | |
| Steelman | 960 | | 10 | |
| TOTAL SASKATCHEWAN | 11,936 | | 38 | 3 |
| TOTAL CANADA | 1,439,546 | 161,150 | 3,431 | 172 |
| UNITED STATES | | | | |
| LOUISIANA | | | | |
| | 4,008 | 1,705 | 34 | |
| MONTANA | | | | |
| | 431,545 | 264,830 | 2 | 31 |
| KANSAS | | | | |
| | 1,400 | 1,400 | 147 | |
| WYOMING | | | | |
| | 2,892 | 1,410 | | |
| TOTAL UNITED STATES | 439,845 | 269,345 | 183 | 31 |
| GRAND TOTAL | 1,879,391 | 430,495 | 3,614 | 203 |

AR09

Canadian Tricentrol
Oils Ltd.

| | <u>First 6 months 1968</u> | | <u>First 6 months 1967</u> | |
|---|--------------------------------|------------|--------------------------------|------------|
| CRUDE OIL SALES (Before Royalty) | | | | |
| | <u>Bbls</u> | <u>B/D</u> | <u>Bbls</u> | <u>B/D</u> |
| Canada | 256,024 | 1,407 | 258,097 | 1,426 |
| United States | <u>80,039</u> | <u>440</u> | <u>77,280</u> | <u>427</u> |
| TOTAL | 336,063 | 1,847 | 335,377 | 1,853 |

**EXPLORATION AND DEVELOPMENT
WELLS DRILLED**

| | <u>Gross</u> | <u>Net</u> | <u>Gross</u> | <u>Net</u> |
|---------------------|--------------|-------------|--------------|--------------|
| Oil } Canada | — | — | 16 | 2.22 |
| Gas } Canada | — | — | 1 | .25 |
| Dry } Canada | 1 | .24 | 1 | .17 |
| Oil } United States | 1 | .59 | 1 | .49 |
| Gas } United States | 5 | 2.93 | 12 | 7.02 |
| Dry } United States | 9 | 4.14 | 7 | 4.09 |
| | <u>16</u> | <u>7.90</u> | <u>38</u> | <u>14.24</u> |

FOOTAGE DRILLED

| | | | | |
|---------------|---------------|---------------|----------------|---------------|
| Canada | 4,480 | 1,092 | 70,376 | 10,354 |
| United States | <u>32,910</u> | <u>17,555</u> | <u>34,185</u> | <u>19,679</u> |
| | <u>37,390</u> | <u>18,647</u> | <u>104,561</u> | <u>30,033</u> |

**OIL AND GAS LEASE AND
RESERVATION HOLDINGS**

| | <u>Net Acres</u> | <u>Net Acres</u> |
|---------------|------------------|------------------|
| Canada | 157,502 | 156,476 |
| United States | <u>263,258</u> | <u>243,329</u> |
| | <u>420,760</u> | <u>399,805</u> |

Canadian Tricentrol
Oils Ltd.

PROGRESS REPORT

For six months ended
June 30, 1968

1730 ELVEDEN HOUSE
CALGARY 2, ALBERTA
CANADA

LOUISIANA

University Field

Following successful negotiations in late 1967 in the farming out of the deep rights in the University Field, the farmor began drilling operations in April, 1968. The test, drilled at no cost to the Company, was planned to be taken to a depth of 17,000 feet, but as a major fault was penetrated, cutting out the entire Wilcox Sand section (the main objec-

tive for the test), the well was plugged and abandoned at 13,522 feet.

WYOMING

Thompson Creek

An exploratory well drilled in the Thompson Creek area of Crook County in the spring of 1968 was plugged and abandoned as dry. Company participation was a 50% working interest.

CANADIAN TRICENTROL OILS LTD.

and Subsidiary Companies

Consolidated Statement of Source and Application of Funds

(Expressed in Canadian Dollars)

| | Six Months Ended June 30 | |
|---|-----------------------------|--------------------|
| | 1968 | 1967 |
| SOURCE OF FUNDS | | |
| Net income for the period | \$ 187,843 | \$ 179,554 |
| Add: Non-cash charges for depletion and depreciation | 186,606 | 238,957 |
| | <u>374,449</u> | <u>418,511</u> |
| Proceeds from sale of fixed assets | 43,847 | 20,030 |
| Proceeds from sale of government bonds | 29,753 | — |
| Long term borrowing | 510,440 | 932,000 |
| Advances from parent company | 35,000 | — |
| | <u>\$ 993,489</u> | <u>\$1,370,541</u> |
| APPLICATION OF FUNDS | | |
| Acquisition of properties Exploration and development | \$ 50,083 | \$ 371,958 |
| Plant and equipment | 477,434 | 475,953 |
| Repayment of long term debt | 33,133 | 94,264 |
| Long term debt reclassified as current | 163,036 | 406,295 |
| Increase in non-current deposits and receivables | 450,000 | — |
| | <u>19,662</u> | <u>112,421</u> |
| | <u>1,193,348</u> | <u>1,460,891</u> |
| Decrease in Working Capital | (199,859) | (90,350) |
| | <u>\$ 993,489</u> | <u>\$1,370,541</u> |

CANADIAN TRICENTROL OILS LTD.

and Subsidiary Companies

Consolidated Statement of Income

(Expressed in Canadian Dollars)

| | Six Months Ended June 30 | |
|---|-----------------------------|------------------|
| | 1968 | 1967 |
| INCOME | | |
| Sales of crude oil and natural gas | \$909,570 | \$921,827 |
| Royalty Income | 5,698 | 6,078 |
| | <u>915,268</u> | <u>927,905</u> |
| Less: Royalties and Production expense | 368,479 | 362,450 |
| | <u>546,789</u> | <u>565,455</u> |
| Miscellaneous income | 10,467 | 9,172 |
| OPERATING INCOME | <u>557,256</u> | <u>574,627</u> |
| EXPENSES | | |
| General and Administrative | 85,757 | 76,968 |
| Interest | 78,661 | 78,738 |
| | <u>164,418</u> | <u>155,706</u> |
| Income before depletion and depreciation | 392,838 | 418,921 |
| Provision for depletion and depreciation | 186,606 | 238,957 |
| Income before non-recurring and other charges | 206,232 | 179,964 |
| Non-recurring and exceptional charges | 20,869 | 530 |
| Gain on exchange conversion | (2,480) | (120) |
| | <u>18,389</u> | <u>410</u> |
| NET INCOME FOR THE PERIOD | <u>\$187,843</u> | <u>\$179,554</u> |

These statements are subject to such changes as might be determined by an independent audit at end of calendar year.

EXPLORATION AND DEVELOPMENT

WESTERN CANADA

ALBERTA

Pembina

Effective March 1, 1968, Canadian Tricentrol contributed its participating interest in 17 producing oil wells to the newly formed Pembina Belly River "C" Unit in exchange for a unit participating equity. The Company has also converted its small royalty interest in an oilwell in the Pembina area to a 9% working interest.

BRITISH COLUMBIA

South Inga

The Company acquired a working interest in an additional 326 lease acres at a British Columbia Crown Sale in January, 1968 and now holds varying working interests in 17,204 lease acres in the South Inga/Blueberry area of northeastern British Columbia.

SASKATCHEWAN

Browning

A working interest was earned by the Company in 1,120 lease acres in the Browning area by participating in the drilling of a Mississippian test well to a depth of 4,480 feet before being plugged and abandoned as dry.

Hatton

Following a consolidation of its working interest in 19,504 lease acres at Hatton with other parties holding 23,595 gross acres in the same area, the Company has farmed out its equity, reserving a sliding scale royalty. Farmee plans a 25 well development program on the 70 sections of potential gas producing consolidated acreage.

Illerbrun

Minor acreage has been acquired to augment the Company's interest in approximately

48,000 gross lease acres at Illerbrun. Further drilling is planned for this area in the latter half of 1968.

Steelman

Canadian Tricentrol has converted its gross overriding royalty interest in a Frobisher producing oil well at Steelman into a small working interest.

UNITED STATES

MONTANA

Tiger Ridge and Bullhook

High Crest Oils, Inc., the Company's wholly owned subsidiary has continued the exploration and development of its large acreage spread in the Tiger Ridge and Bullhook areas, and of a total 7 wells drilled in the first half of 1968 to test the Eagle Sand formation, 5 were completed as gas wells, the remaining 2 wells being plugged and abandoned. Progress is being made toward voluntary unitization of Tiger Ridge field prior to the commencement of gas sales.

In May 1968 a deep test well drilled on Tiger Ridge acreage resulted in an oil discovery being completed in the Upper Shaunavon horizon. However, a second well drilled to offset the oil discovery well encountered no porosity and was plugged and abandoned. A third deep test in process of drilling at June 30, 1968, was also subsequently abandoned as dry. The Company was successful in acquiring interests in Montana State leases comprising 3,400 acres located in close proximity to the Tiger Ridge oil discovery.

Rocky Boy

The Company has participated in the drilling of a further 5 exploratory wells in the Rocky Boy region southwest of Tiger Ridge/Bullhook areas which yielded valuable geological data prior to being plugged. A working interest has been acquired in additional leases totalling 12,695 acres of Indian lands at Rocky Boy, while 6,251 acres of undeveloped oil and gas leases in this area considered to lack oil or gas potential were subsequently surrendered.

To the Shareholders:

During the first half of 1968 a shareholder of Canadian Tricentrol circulated a typed letter, signed with the typed initials "P. P.", to other registered shareholders of the Company. He entitled the letter "Comments from a Shareholder". This letter contained numerous statements as to the oil potential underlying the Tiger Ridge Gas Field in north central Montana, which your Board regards as misleading.

Your directors and officers have been continually advised by their technical teams since the inception of participation that the Tiger Ridge area in general is potentially attractive for commercial accumulations of both gas and oil. You are already aware of the major gas reserves that have been developed over the past eighteen months in the shallower blanket Eagle sands. In May of this year your Company drilled its first deep test to the Mississippian limestone (some 4,000 feet) and discovered oil in a porous Jurassic carbonate overlying the Mississippian. An offset to the discovery well was drilled immediately following completion; however, the porosity in the first well was not present in the second test, which was plugged and abandoned. Subsequently, a third test was drilled some eight miles south and east of the first two tests. This test reached a total depth of 5,897 feet in the Cambrian, and although numerous zones of porosity and some shows of oil were encountered, no commercial shows of oil or gas were established, and the test was plugged and abandoned. The area still holds promise for accumulations of oil, and a program of development is now under study.

Shareholders will also have received copies of an open letter to the management of the Company from a Mr. Paul Payette of Montreal, and will subsequently have received your Company's reply of 26th August, 1968.

Your directors have no further comment to make in this matter.

It is disappointing to have to report that to date the Company has failed to secure a realistic contract for the sale of gas from the Tiger Ridge Field. The proven and probable reserves are now estimated by our independent engineering consultant as 333 billion cubic feet in Tiger Ridge and 24 billion cubic feet in the Bullhook area, a total of 357 billion cubic feet. This is a substantial and important reserve, and the largest discovery of gas in the State of Montana for forty years. As the value of a gas reserve is largely dependent upon its location and the distance which the gas has to be piped to market, emphasis has been placed to date on securing a market within the State of Montana. Negotiations are continuing, and shareholders will be notified of progress from time to time.

Consolidated sales of crude oil during the first half of 1968 totalled 336,063 barrels, a very slight increase over the figure of 335,377 barrels for the same period last year. The unaudited financial statements for the period under review reveal that gross revenue from the sale of crude oil and natural gas was \$909,570, a decrease of slightly more than .1% over the figure of \$921,827 for the same period in 1967. However, the figure for 1967 included an exceptional item of \$23,417 relating to a retroactive gas sales price adjustment.

Operating income from all sources decreased by 3% from \$574,627 in 1967 to \$557,256 in 1968. Upward revision of the Company's estimated oil and gas reserves has resulted in a lowering of rates of depletion and depreciation, and net income for the half year ended 30th June, 1968 is shown as \$187,843, compared with \$179,554 during the first half of 1967.

R. S. LONGCROFT,
President.

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R. S. LONGCROFT,
President.

MISPRINTED

Canadian Tricentrol Oil Ltd

ANNUAL REPORT

AR09

for year ending December 31, 1968

MISPRINTED

Canadian Tribenrol Oils Ltd

ANNUAL REPORT

11/11/68
34/11/68

AR09

for year ending December 31, 1968

THE PARENT GROUP



Canadian Tricentrol Oils Ltd.

(Incorporated under the Laws of Alberta)

| | | |
|----------|--|---------------------|
| Officers | R. S. LONGCROFT, F.C.A. | President |
| | J. G. S. LONGCROFT | Vice-President |
| | A. P. HAINES, A.C.W.A., F.C.I.S. | Secretary-Treasurer |
| | K. H. SANDS, R.I.A. | Assistant Treasurer |

| | | |
|-----------|-------------------------------|---|
| Directors | R. S. LONGCROFT | London, England and Calgary, Alberta |
| | J. G. S. LONGCROFT | London, England |
| | R. P. ALGER | Calgary, Alberta |
| | J. M. ROBERTSON, Q.C. | Calgary, Alberta |
| | R. D. BELL | Calgary, Alberta |

| | | |
|--------------------|---|------------------|
| Technical managers | STERLING OIL PROPERTIES MANAGEMENT LTD. | Calgary, Alberta |
|--------------------|---|------------------|

| | | |
|-----------------|--|---|
| Transfer agents | CANADA PERMANENT TRUST COMPANY | Calgary, Alberta Toronto, Ontario Vancouver, B.C. |
| | CANADIAN BANK OF COMMERCE TRUST COMPANY | New York, N.Y., U.S.A. |

| | | |
|----------|---|------------------|
| Auditors | DELOITTE, PLENDER, HASKINS & SELLS CHARTERED ACCOUNTANTS | Calgary, Alberta |
|----------|---|------------------|

| | | |
|---------|---|-------------------------------|
| Bankers | THE ROYAL BANK OF CANADA | Main Branch, Calgary, Alberta |
| | FIRST CITY NATIONAL BANK OF HOUSTON | Houston, Texas, U.S.A. |

| | |
|-------------------------|--|
| Stock exchange listings | TORONTO, CALGARY AND VANCOUVER STOCK EXCHANGES |
|-------------------------|--|

| | | |
|-------------------|-------------------------------|------------------|
| Registered office | 1500 GUINNESS HOUSE | Calgary, Alberta |
|-------------------|-------------------------------|------------------|

| | | |
|-------------------|------------------------------|------------------|
| Operations office | 1730 ELVEDEN HOUSE | Calgary, Alberta |
|-------------------|------------------------------|------------------|

Report of the Directors

TO THE SHAREHOLDERS:

During 1968 the Company had of financial necessity to slow down the pace of exploration while maintaining its position in the Bearpaw Area of North-Central Montana. However we participated in the drilling of 51 wells which resulted in 22 oilwells and 1 gas well being completed in Canada, and 1 oilwell and 6 gas wells in the United States.

Company policy and management effort continue to be dominated by our investments in Montana and the need to secure a realistic market for our present and future gas reserves in the area.

In 1967 we intervened before the U.S. Federal Power Commission in the matter of Montana Power Company's application to import additional natural gas from Canada, believing that there were adequate reserves in that State to meet Montana Power Company supply demands. This case was concluded on March 27th, 1969 with the Federal Power Commission permitting Montana Power to import a further 20,000 m.c.f. per day from Canada. During this case we had our gas on offer to the Montana Power Company, which effectively precluded the commitment of our gas reserves elsewhere.

In recent months considerable interest has been shown by a number of possible purchasers, and it is hoped that during 1969 a gas sales contract will be signed. A drilling program for the further development of the Bearpaw area is now under way.

Arrangements have now been finalized for the sale of oil from the recent discovery in California, where we have a 12½% interest in some 2,200 acres. The second test well is being spudded at date of this report, which will help give us an indication as to the extent and importance of this discovery.

Capital expenditures on acquisition, exploration and development of properties in Canada and the United States totalled \$957,645, of which approximately 56% was incurred in the U.S. The aggregate of these expenditures for the previous year was \$1,596,049. Net footage drilled in 1968 was 49,295 feet, compared to 64,858 feet in year 1967. Consolidated crude oil sales increased from 679,717 barrels (1,862 b.p.d.) in 1967 to 696,914 barrels (1,904 b.p.d.) for the year 1968. Consolidated gross revenue from the sale of crude oil and natural gas was \$1,853,457, an increase of approximately 3% over the previous year's total of \$1,800,907.

After providing for depletion and depreciation, consolidated net income for year 1968 was \$401,970, compared with 1967 net income of \$414,043.

Your Directors again wish to express their appreciation of the continued support and encouraging contributions of members of our management companies, and also wish to acknowledge the co-operation extended by joint operators.

Shareholders may have received from time to time certain circulars or letters commenting on the Company's activities, and we would caution shareholders that to base financial decisions on any circular or letter not officially attributed to the Company may be unwise. The Company is subject to Ruling No. 49 of the Toronto Stock Exchange which provides for immediate notification to the Exchange and Press of any material alteration in the position of the Company. Your management as in the past will continue to abide by this ruling.

On Behalf of the Board of Directors

R. S. LONGCROFT
President.

April 2, 1969.

CONSOLIDATED BALANCE SHEET as at December 31, 1968

(with 1967 figures for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1968 | 1967 |
|--|---------------------------|---------------------------|
| CURRENT LIABILITIES: | | |
| Bank loan payments due within one year | \$1,290,297 | \$ 794,446 |
| Accounts payable: | | |
| Trade and joint operations | 333,664 | 273,636 |
| Parent company | — | 15,449 |
| Accrued liabilities | 33,713 | 50,724 |
| Total current liabilities | <u>1,657,674</u> | <u>1,134,255</u> |
| LONG-TERM DEBT: | | |
| Bank loans secured by the hypothecation of certain producing properties and/or the proceeds therefrom — less included in current liabilities | 1,477,146 | 1,665,287 |
| 4% note payable to parent company, due January 1, 1972 | — | 756,757 |
| Non-interest bearing advances from parent company, no fixed terms of repayment | 1,498,483 | 641,375 |
| Total long-term debt | <u>2,975,629</u> | <u>3,063,419</u> |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock (Notes 3 and 4): | | |
| Authorized — 1,250,000 common shares of a par value of \$2 each | | |
| Issued and fully paid — 1968 — 1,051,155 shares 1967 — 1,048,355 shares | 2,102,310 | 2,096,710 |
| Contributed surplus (Note 4) | 498,430 | 495,630 |
| Retained earnings | 1,681,642 | 1,279,672 |
| Total shareholders' equity | <u>4,282,382</u> | <u>3,872,012</u> |
| TOTAL | <u><u>\$8,915,685</u></u> | <u><u>\$8,069,686</u></u> |

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings

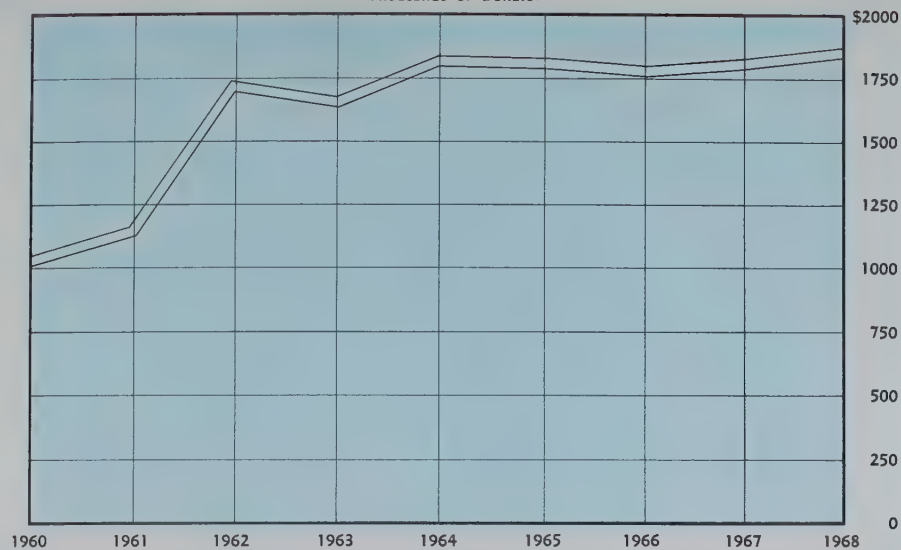
FOR THE YEAR ENDED DECEMBER 31, 1968

(with 1967 figures for comparison)

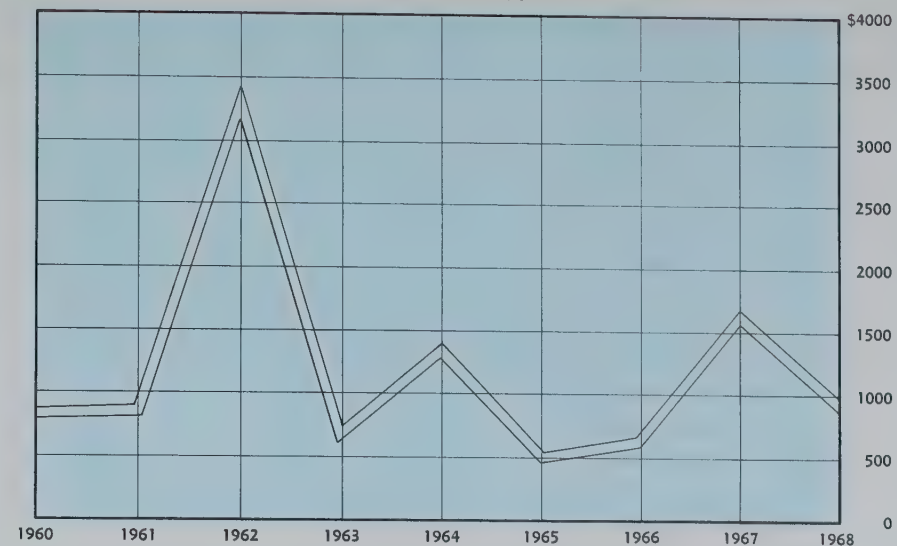
| | 1968 | 1967 |
|---|-------------|-------------|
| INCOME: | | |
| Sale of crude oil and natural gas | \$1,842,362 | \$1,789,348 |
| Royalty income | 11,095 | 11,559 |
| Total income | 1,853,457 | 1,800,907 |
| OPERATING EXPENSE: | | |
| Royalties and production expense | 761,676 | 739,654 |
| INCOME FROM PRODUCTION | 1,091,781 | 1,061,253 |
| EXPENSES: | | |
| General and administrative | 177,365 | 137,502 |
| Interest | 152,188 | 159,694 |
| Total expenses | 329,553 | 297,196 |
| INCOME BEFORE OTHER INCOME | 762,228 | 764,057 |
| OTHER INCOME: | | |
| Administration charges | — | 28,745 |
| Miscellaneous | 17,660 | 39,450 |
| Total other income | 17,660 | 68,195 |
| INCOME BEFORE DEPLETION AND DEPRECIATION | 779,888 | 832,252 |
| PROVISION FOR DEPLETION AND DEPRECIATION | 377,918 | 439,775 |
| INCOME BEFORE NON-RECURRING INCOME | 401,970 | 392,477 |
| NON-RECURRING INCOME: | | |
| Net adjustment of prior years gas sales price | — | 21,566 |
| NET INCOME FOR THE YEAR (Note 5) | 401,970 | 414,043 |
| RETAINED EARNINGS AT BEGINNING OF THE YEAR | 1,279,672 | 865,629 |
| RETAINED EARNINGS AT END OF THE YEAR | \$1,681,642 | \$1,279,672 |

The accompanying notes are an integral part of the financial statements.

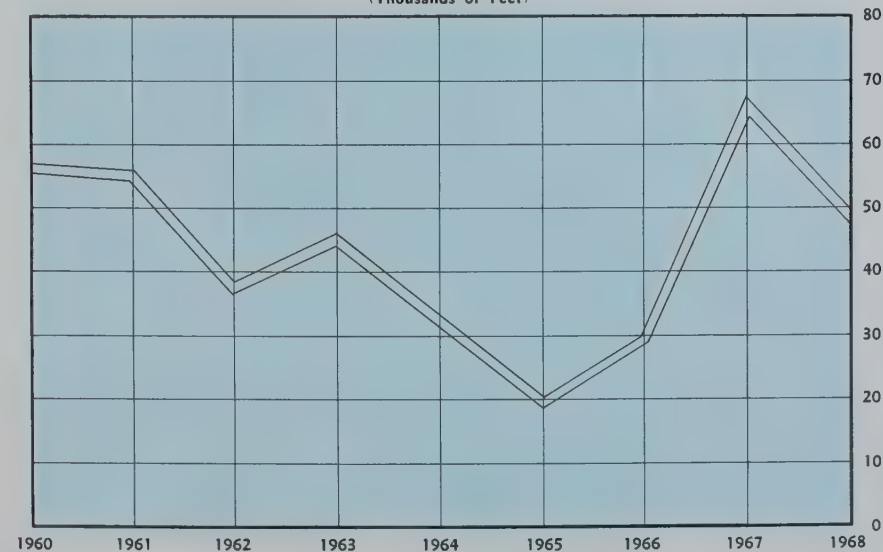
CONSOLIDATED GROSS OIL AND GAS SALES
(Thousands of Dollars)



CONSOLIDATED NET ACQUISITION AND DEVELOPMENT EXPENDITURES
(Thousands of Dollars)



CONSOLIDATED NET FOOTAGE DRILLED
(Thousands of Feet)



CRUDE OIL SALES

| | 1968 | | 1967 | |
|--------|---------|-------|---------|-------|
| | BBLS. | B/D | BBLS. | B/D |
| CANADA | 543,281 | 1,484 | 530,799 | 1,454 |
| U.S.A. | 153,633 | 420 | 148,918 | 408 |
| | 696,914 | 1,904 | 679,717 | 1,862 |

NATURAL GAS SALES (in thousands of cubic feet per day)

| Average for the Year | 1968 | 1967 |
|----------------------|-------|-------|
| CANADA | 2,760 | 2,309 |
| U.S.A. | 228 | 239 |

EXPLORATORY AND DEVELOPMENT WELLS DRILLED

| | 1968 | | 1967 | |
|--------------|-------|-------|-------|-------|
| | Gross | Net | Gross | Net |
| CANADA — Oil | 22 | 3.04 | 22 | 3.04 |
| — Gas | 2 | .49 | 2 | .49 |
| — Dry | 4 | .71 | 4 | .71 |
| U.S.A. — Oil | 1 | .49 | 1 | .49 |
| — Gas | 20 | 11.70 | 20 | 11.70 |
| — Dry | 22 | 13.21 | 22 | 13.21 |
| | 71 | 29.64 | 71 | 29.64 |

ACREAGE

| | 1968 | | 1967 | |
|--------|-------------|-----------|-------------|-----------|
| | Gross Acres | Net Acres | Gross Acres | Net Acres |
| CANADA | 1,439,546 | 161,150 | 1,278,676 | 157,947 |
| U.S.A. | 439,845 | 269,345 | 414,716 | 261,662 |
| | 1,879,391 | 430,495 | 1,693,392 | 419,609 |

Uranium Permits and Claims

| | 1968 | 1967 |
|--------|-----------|---------|
| CANADA | 1,650,000 | 201,094 |
| | 799,934 | 194,984 |

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

ASSETS

| | 1968 | 1967 |
|---|-------------|-------------|
| CURRENT ASSETS: | | |
| Cash | \$ 76,497 | \$ 69,054 |
| Accounts receivable: | | |
| Production and joint operations, less allowance for possible losses 1968 — \$11,044; 1967 — \$5,935 | 228,408 | 264,618 |
| Other | 25,370 | 21,583 |
| Refundable deposits | 37,495 | — |
| Inventories: | | |
| Materials and well equipment — at cost | 1,986 | 1,986 |
| Crude oil — at posted field price | 53,442 | 57,567 |
| Prepaid expenses | 60,028 | 43,835 |
| Total current assets | 483,226 | 458,643 |
| DEPOSITS AND NOTE RECEIVABLE — at cost (market value 1968 — \$192,333; 1967 — \$137,382) | 194,182 | 140,995 |
| PROPERTIES AND EQUIPMENT — at cost (Note 2): | | |
| Developed lease and royalty interests | 5,973,764 | 5,935,174 |
| Production and lease equipment | 2,297,243 | 2,317,867 |
| Undeveloped and non-producing properties | 3,142,407 | 3,076,612 |
| | 11,413,414 | 11,329,653 |
| Less accumulated depletion and depreciation | 3,175,743 | 3,859,605 |
| Net properties and equipment | 8,237,671 | 7,470,048 |
| INCORPORATION EXPENSE — at cost | 606 | — |
| Approved by the Board: | | |
| J. G. S. LONGCROFT, Director | | |
| R. P. ALGER, Director | | |
| TOTAL | \$8,915,685 | \$8,069,686 |

CONSOLIDATED BALANCE SHEET as at December 31, 1968

(with 1967 figures for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1968 | 1967 |
|--|---------------------------|---------------------------|
| CURRENT LIABILITIES: | | |
| Bank loan payments due within one year | \$1,290,297 | \$ 794,446 |
| Accounts payable: | | |
| Trade and joint operations | 333,664 | 273,636 |
| Parent company | — | 15,449 |
| Accrued liabilities | 33,713 | 50,724 |
| Total current liabilities | <u>1,657,674</u> | <u>1,134,255</u> |
| LONG-TERM DEBT: | | |
| Bank loans secured by the hypothecation of certain producing properties and/or the proceeds therefrom — less included in current liabilities | 1,477,146 | 1,665,287 |
| 4% note payable to parent company, due January 1, 1972 | — | 756,757 |
| Non-interest bearing advances from parent company, no fixed terms of repayment | 1,498,483 | 641,375 |
| Total long-term debt | <u>2,975,629</u> | <u>3,063,419</u> |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock (Notes 3 and 4): | | |
| Authorized — 1,250,000 common shares of a par value of \$2 each | | |
| Issued and fully paid — 1968 — 1,051,155 shares | 2,102,310 | 2,096,710 |
| 1967 — 1,048,355 shares | 498,430 | 495,630 |
| Contributed surplus (Note 4) | 1,681,642 | 1,279,672 |
| Retained earnings | 4,282,382 | 3,872,012 |
| Total shareholders' equity | <u>4,282,382</u> | <u>3,872,012</u> |
| TOTAL | <u><u>\$8,915,685</u></u> | <u><u>\$8,069,686</u></u> |

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

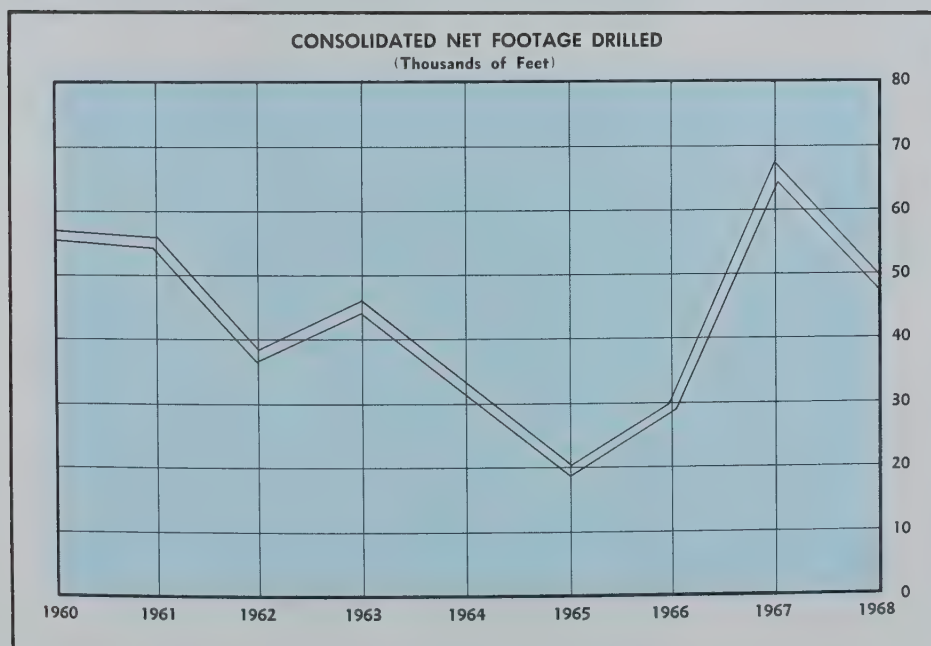
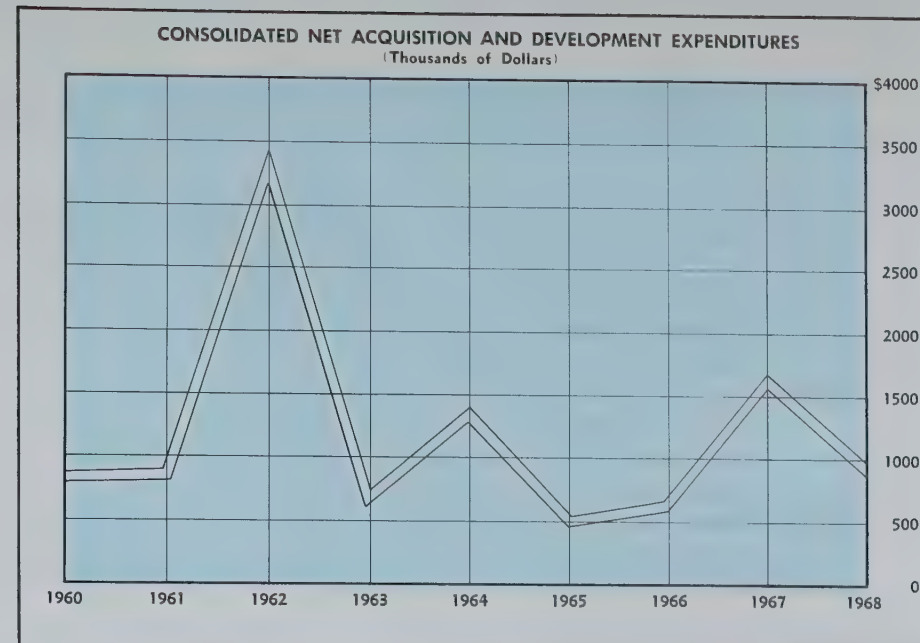
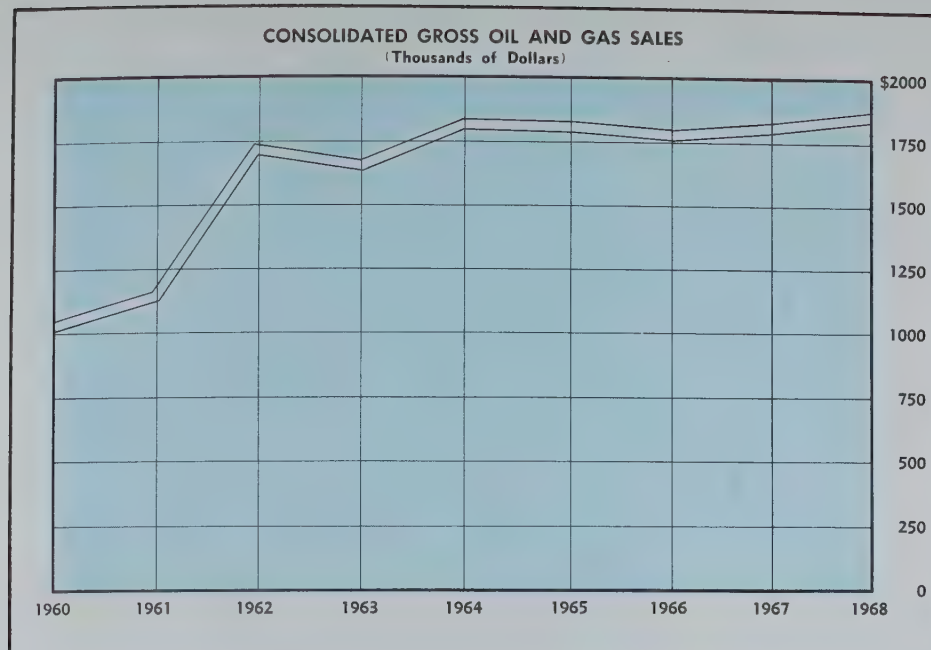
Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1968

(with 1967 figures for comparison)

| | 1968 | 1967 |
|---|-------------|-------------|
| INCOME: | | |
| Sale of crude oil and natural gas | \$1,842,362 | \$1,789,348 |
| Royalty income | 11,095 | 11,559 |
| Total income | 1,853,457 | 1,800,907 |
| OPERATING EXPENSE: | | |
| Royalties and production expense | 761,676 | 739,654 |
| INCOME FROM PRODUCTION | 1,091,781 | 1,061,253 |
| EXPENSES: | | |
| General and administrative | 177,365 | 137,502 |
| Interest | 152,188 | 159,694 |
| Total expenses | 329,553 | 297,196 |
| INCOME BEFORE OTHER INCOME | 762,228 | 764,057 |
| OTHER INCOME: | | |
| Administration charges | — | 28,745 |
| Miscellaneous | 17,660 | 39,450 |
| Total other income | 17,660 | 68,195 |
| INCOME BEFORE DEPLETION AND DEPRECIATION | 779,888 | 832,252 |
| PROVISION FOR DEPLETION AND DEPRECIATION | 377,918 | 439,775 |
| INCOME BEFORE NON-RECURRING INCOME | 401,970 | 392,477 |
| NON-RECURRING INCOME: | | |
| Net adjustment of prior years gas sales price | — | 21,566 |
| NET INCOME FOR THE YEAR (Note 5) | 401,970 | 414,043 |
| RETAINED EARNINGS AT BEGINNING OF THE YEAR | 1,279,672 | 865,629 |
| RETAINED EARNINGS AT END OF THE YEAR | \$1,681,642 | \$1,279,672 |

The accompanying notes are an integral part of the financial statements.



| | | 1968 | | 1967 | |
|--------|--|----------------|--------------|----------------|--------------|
| | | BBLS. | B/D | BBLS. | B/D |
| CANADA | | 543,281 | 1,484 | 530,799 | 1,454 |
| U.S.A. | | 153,633 | 420 | 148,918 | 408 |
| | | <u>696,914</u> | <u>1,904</u> | <u>679,717</u> | <u>1,862</u> |

| | | 1968 | | 1967 | |
|--------|--|----------------------|--|-------|--|
| | | Average for the Year | | | |
| CANADA | | 2,760 | | 2,309 | |
| U.S.A. | | 228 | | 239 | |

| | | Gross | | Net | |
|--------|-----|-----------|--------------|-----------|--------------|
| | | | | | |
| CANADA | Oil | 22 | 3.71 | 22 | 3.04 |
| | Gas | 1 | .46 | 2 | .49 |
| | Dry | 11 | 2.18 | 4 | .71 |
| U.S.A. | Oil | 1 | .58 | 1 | .49 |
| | Gas | 6 | 3.51 | 20 | 11.70 |
| | Dry | 10 | 4.73 | 22 | 13.21 |
| | | <u>51</u> | <u>15.19</u> | <u>71</u> | <u>29.64</u> |

| | | Gross Acres | | Net Acres | |
|--------|--|------------------|----------------|------------------|----------------|
| | | | | | |
| CANADA | | 1,439,546 | 161,150 | 1,278,676 | 157,947 |
| U.S.A. | | 439,845 | 269,345 | 414,716 | 261,662 |
| | | <u>1,879,391</u> | <u>430,495</u> | <u>1,693,392</u> | <u>419,609</u> |

| | | Gross Acres | | Net Acres | |
|--------|--|-------------|---------|-----------|---------|
| | | | | | |
| CANADA | | 1,650,000 | 201,094 | 799,934 | 194,984 |

Canadian Tricentrol Oils Ltd.

AND ITS WHOLLY-OWNED SUBSIDIARIES

ASSETS

| | 1968 | 1967 |
|---|--------------------|--------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 76,497 | \$ 69,054 |
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| Production and joint operations, less allowance for possible losses 1968 — \$11,044; 1967 — \$5,935 | 228,408 | 264,618 |
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| Inventories: | | |
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| Crude oil — at posted field price | 53,442 | 57,567 |
| Prepaid expenses | 60,028 | 43,835 |
| Total current assets | 483,226 | 458,643 |
| DEPOSITS AND NOTE RECEIVABLE — at cost (market value 1968 — \$192,333; 1967 — \$137,382) | 194,182 | 140,995 |
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| Production and lease equipment | 2,297,243 | 2,317,867 |
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| | 11,413,414 | 11,329,653 |
| Less accumulated depletion and depreciation | 3,175,743 | 3,859,605 |
| Net properties and equipment | 8,237,671 | 7,470,048 |
| INCORPORATION EXPENSE — at cost | 606 | — |
| Approved by the Board: J. G. S. LONGCROFT, Director R. P. ALGER, Director | | |
| TOTAL | \$8,915,685 | \$8,069,686 |

The accompanying notes are an integral part of these financial statements.

AUDITORS' REPORT

To the Shareholders of
CANADIAN TRICENTROL OILS LTD.

We have examined the consolidated balance sheet of Canadian Tricentrol Oils Ltd. and its wholly-owned subsidiaries as at December 31, 1968 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its wholly-owned subsidiaries at December 31, 1968 and the results of their operations and the sources and applications of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

Calgary, Alberta.
April 3, 1969.

CANADIAN TRICENTROL OILS LTD.

Summary of Oil and Gas Property Interests as at December 31, 1968

| AREA | GROSS ACRES | NET ACRES | WELLS CAPABLE OF PRODUCTION | |
|------------------------|----------------|--------------|-----------------------------------|-----|
| | | | Oil | Gas |
| CANADA | | | | |
| ALBERTA | | | | |
| Acheson | 160 | 18 | 1 | |
| Atlee | 51,962 | 5,377 | | 12 |
| Bigoray | 1,280 | 156 | | |
| Braeburn-Saddle Hills | 13,440 | 1,344 | | 2 |
| Chigwell | 160 | 43 | 1 | |
| Chip Lake | 8,000 | 1,039 | | |
| Clive | 1,920 | 960 | | |
| Crossfield | 14,215 | 1,323 | 76 | |
| Etzikom | 3,832 | 3,640 | | 1 |
| Fenn Big Valley | 1,760 | 1,716 | | |
| Ghost Pine | 144,160 | 314 | | 37 |
| Halkirk | 1,280 | 427 | | 1 |
| Hussar | 8,120 | 289 | 37 | 7 |
| Joarcam | 4,280 | 8 | 103 | |
| Judy Creek | 960 | 224 | | |
| Leduc | 160 | 80 | | |
| Malmo | 320 | 40 | 1 | |
| Medicine River | 3,760 | 38 | 31 | |
| North Buffalo | 1,280 | 616 | | 1 |
| North Pigeon Lake | 1,280 | 228 | 3 | |
| North Sedalia | 3,840 | 1,216 | | 1 |
| Oyen | 1,280 | 320 | | 1 |
| Pakowki Lake | 31,348 | 4,707 | | 10 |
| Pembina | 146,945 | 6,401 | 1,243 | 1 |
| Pembina River | 3,360 | 840 | | |
| Red Earth | 160 | 27 | | |
| Sedalia | 6,880 | 1,677 | | 1 |
| Tilley | 4,960 | 597 | | |
| Villeneuve | 964 | 348 | | |
| Wainwright | 1,940 | 281 | 59 | 1 |
| Willesden Green | 8,960 | 153 | 58 | |
| Wimborne | 27,300 | 15 | | 24 |
| TOTAL ALBERTA | 500,266 | 34,462 | 1,613 | 100 |
| ARCTIC | | | | |
| Banks Island | 401,504 | 100,375 | | |
| BRITISH COLUMBIA | | | | |
| Beatton River | 346 | 116 | | |
| Blueberry | 3,474 | 211 | | |
| Buick Creek/Inga | 20,758 | 2,046 | 34 | 1 |
| Cameron River | 26,735 | 4,410 | | |
| Laprise Creek | 690 | 673 | | |
| Milligan Creek | 520 | 93 | | 1 |
| TOTAL BRITISH COLUMBIA | 52,523 | 7,549 | 34 | 2 |
| SASKATCHEWAN | | | | |
| Alameda | 7,920 | 805 | 93 | |
| Browning | 800 | 195 | | |

| AREA | GROSS ACRES | NET ACRES | WELLS CAPABLE OF PRODUCTION | |
|----------------------------|------------------|----------------|-----------------------------------|------------|
| | | | Oil | Gas |
| Cantuar | 11,200 | 791 | 157 | 3 |
| Carnduff | 3,870 | 196 | 62 | |
| Cactus Lake | 2,560 | 576 | | |
| Coleville | 49,461 | 73 | | 37 |
| Glen Ewen | 8,960 | 417 | 57 | |
| Hatton | 24,783 | 6,196 | | 4 |
| Hoosier | 31,639 | 147 | | 16 |
| Illerbrun | 49,964 | 6,021 | 19 | |
| Lampman | 1,000 | 25 | 13 | |
| Lloydminster | 70 | 63 | 2 | |
| Milton | 3,836 | 932 | | 6 |
| Oungre | 1,280 | 616 | 1 | |
| Parkman | 230 | 57 | | |
| Queensdale | 80 | 20 | 1 | |
| Steelman | 62,356 | 1,602 | 669 | |
| Weyburn | 52,720 | 32 | 667 | |
| TOTAL SASKATCHEWAN | 312,729 | 18,764 | 1,741 | 66 |
| ROYALTY INTERESTS | | | | |
| ALBERTA | | | | |
| Campbell | 120 | | 1 | |
| Halkirk | 4,478 | | | 1 |
| Leduc | 160 | | | |
| Northern Alberta | 155,200 | | 3 | |
| Pembina | 471 | | 1 | |
| Willesden Green | 159 | | 5 | 1 |
| TOTAL ALBERTA | 160,588 | | | |
| SASKATCHEWAN | | | | |
| Alameda | 480 | | 5 | |
| Cactus Lake | 3,210 | | | |
| Carnduff | 720 | | 9 | |
| Hastings | 640 | | 3 | |
| Hoosier | 1,918 | | | 3 |
| Illerbrun | 2,008 | | | |
| Northgate | 1,600 | | 10 | |
| Queensdale | 400 | | 1 | |
| Steelman | 960 | | 10 | |
| TOTAL SASKATCHEWAN | 11,936 | | 38 | 3 |
| TOTAL CANADA | 1,439,546 | 161,150 | 3,431 | 172 |
| UNITED STATES | | | | |
| LOUISIANA | | | | |
| | 4,008 | 1,705 | 34 | |
| MONTANA | | | | |
| | 431,545 | 264,830 | 2 | 31 |
| KANSAS | | | | |
| | 1,400 | 1,400 | 147 | |
| WYOMING | | | | |
| | 2,892 | 1,410 | | |
| TOTAL UNITED STATES | 439,845 | 269,345 | 183 | 31 |
| GRAND TOTAL | 1,879,391 | 430,495 | 3,614 | 203 |

